

RECEIVED

SEP 30 2004

SETTLEMENT AGREEMENT

This Settlement Agreement is entered into this 20th day of September 2004, by and between Louisville Gas and Electric Company ("LG&E") and the Staff of the Kentucky Public Service Commission ("Commission Staff").

**WITNESSETH:**

**WHEREAS**, LG&E is a utility engaged in the generation, transmission and distribution of electricity to the public, subject to jurisdiction of the Kentucky Public Service Commission ("Commission") pursuant to KRS Chapter 278;

**WHEREAS**, on October 31, 2003, an incident occurred at LG&E's Mill Creek Power Plant Unit 4 cooling tower in Jefferson County, Kentucky (the "October 31, 2003 Incident");

**WHEREAS**, the Commission Staff investigated the October 31, 2003 Incident and submitted its Incident Investigation - Staff Report ("Report") on December 15, 2003;

**WHEREAS**, on June 2, 2004, the Commission entered an order initiating Case No. 2004-00096, styled *In the Matter of Louisville Gas and Electric Company Alleged Failure to Comply with Commission Regulation 807 KAR 5:041, Section 3(1)*, and ordered LG&E to show cause why it should not be subject to the penalties of KRS 278.990 for the alleged probable violation of the National Electrical Safety Code ("NESC") listed in the Report;

**WHEREAS**, on June 22, 2004, LG&E, by counsel, filed its response to the Commission's Order of June 2, 2004 denying LG&E had willfully violated the NESC as cited in the Report;

**WHEREAS**, on July 29, 2004, LG&E and Commission Staff held an informal conference at the offices of the Commission in which all issues were discussed; and,

**WHEREAS**, LG&E and Commission Staff, the signatories to this Settlement Agreement, negotiated a settlement through compromise resolving all issues surrounding the October 31, 2003 Incident.

**NOW, THEREFORE**, for and in consideration of the premises and conditions set forth herein, the signatories hereby agree as follows:

**ARTICLE 1** Negotiated Settlement Amount

Within ten (10) days after the entry of an order approving this Settlement Agreement, LG&E shall pay to the Commonwealth of Kentucky the sum of one thousand five hundred dollars (\$1,500.00) in full satisfaction of any applicable possible civil fines associated with the outcome of this proceeding. This payment shall be in the form of a cashier's check made payable to the "Treasurer of the Commonwealth of Kentucky" and shall be mailed or delivered to the Office of General Counsel, Public Service Commission of Kentucky, 211 Sower Boulevard, Post Office Box 615, Frankfort, Kentucky 40602.

**ARTICLE 2** LG&E's Subsequent Remedial Changes

In future work inside the cooling tower of Mill Creek Unit 4, LG&E will require: (1) the installation of temporary covers over the riser openings (which covers have already been obtained by LG&E and are stored on-site at Mill Creek Unit 4) before work commences, and (2) that fall-protection equipment be used while the temporary covers are being installed.

**ARTICLE 3** Approval of Settlement Agreement in its Entirety

This Settlement Agreement is subject to the acceptance of and approval by the Commission. Following the execution of this Settlement Agreement, the signatories shall file it with the Commission and shall act in good faith and use their best efforts to recommend to the Commission that this Settlement Agreement be accepted and approved. If the Commission issues a final order in which it accepts and approves this Settlement Agreement in its entirety, the

signatories hereby waive their rights under KRS 278.400 to file an application for rehearing and their rights under KRS 278.410 to file a complaint in the Franklin Circuit Court regarding such order of the Commission.

ARTICLE 4 No Approval of Settlement Agreement in its Entirety

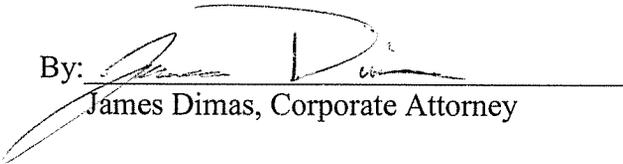
If the Commission does not accept and approve this Settlement Agreement in its entirety, then: (a) this Settlement Agreement shall be null, void and withdrawn by the signatories hereto from further consideration by the Commission and none of the signatories shall be bound by any of the provisions herein; and (b) this proceeding shall go forward and neither the terms of this Settlement Agreement nor any matters raised during the settlement negotiations shall be binding on any of the signatories to this Settlement Agreement or be construed against any of the signatories.

ARTICLE 5 No Admission of Violation of NESC Rules

Nothing contained herein shall be construed as an admission of a violation of any federal or state statute, or of any provision of an administrative regulation or the NESC; nor shall the Commission's acceptance of this agreement be construed as a finding of a violation of any statute, administrative regulation or the NESC. This Settlement Agreement shall not be used for any purpose in any subsequent legal or administrative proceeding (other than a proceeding by the Commission to enforce the terms of this Settlement Agreement), and LG&E shall not be precluded or estopped from raising any issue, claim, or defense therein by reason of the execution of this Settlement Agreement.

**IN WITNESS WHEREOF**, the parties hereto have hereunto affixed their signatures.

Louisville Gas and Electric Company

By: 

James Dimas, Corporate Attorney

Staff of the Kentucky Public Service  
Commission

By: *Anta G. Mitchell*  
Counsel for the Staff,  
Kentucky Public Service Commission